



WEEKLY ECONOMIC DIGEST

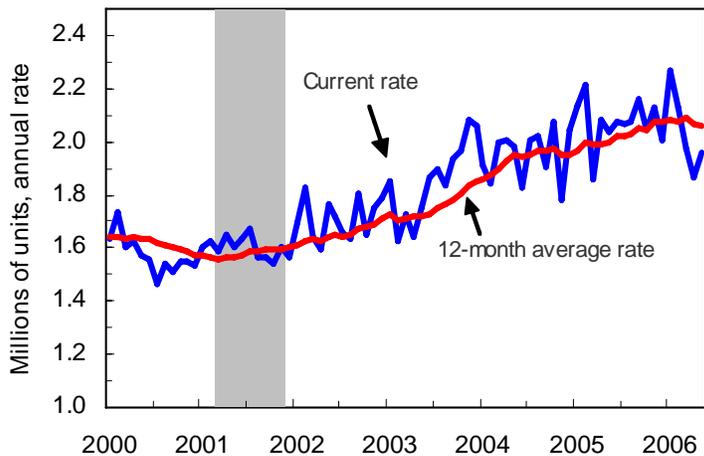


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

June 27, 2006

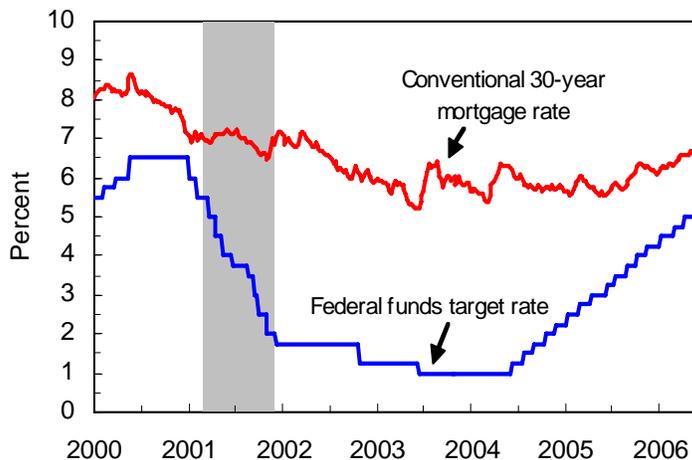
Housing Market Likely to Continue Cooling Despite May Activity

Privately Owned Housing Units Started



Source: Census Bureau, U.S. Department of Commerce and National Bureau of Economic Research.

Interest Rates



Source: Board of Governors, Federal Reserve System and National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

- **Housing starts rebounded slightly last month.** The number of new privately owned housing units started grew by 5.0 percent in May to an annual rate of 1.957 million units. That growth in starts exceeded analysts' expectations, but it was too small to offset the 17.7 percent drop between January and April, and the 12-month average rate of housing starts edged down again (see top chart).
- **New home sales rose in May.** Sales of new single-family homes rose by 4.6 percent in May to 1.234 million units at an annual rate. However, that rate is 5.9 percent below what it was a year earlier. The \$235,300 median sales price of new houses sold in May was 3.1 percent higher than it was a year earlier. That is considerably less than the 12-month appreciation of 7.8 percent from May 2004 to May 2005.
- **Mortgage loan rates have been rising.** The average contract rate on conventional, 30-year mortgage loans averaged 6.71 percent last week, up 0.5 percentage point since the first week of the year. Mortgage and other long-term rates have responded slowly to increases in short-term rates by the Federal Reserve (see bottom chart), but the mortgage rate is now about 1.1 percentage points higher than it was a year ago, and the housing market has begun to cool. The Fed is expected to raise its target short-term interest rate by another $\frac{1}{4}$ percentage point on Thursday.
- **Orders for capital goods fell in May, but backlogged orders remain high.** New orders for nondefense capital goods declined by 1.9 percent last month, reflecting a 20.3 percent drop in aircraft orders. Excluding aircraft orders, which are typically volatile, new orders for nondefense capital goods rose by 1.0 percent. The near-term outlook for shipments remains favorable, however, because unfilled orders have been rising for several months and were equal to nearly five months of shipments at the current rate in May.

The Economy at a Glance	May	Apr	Mar	Feb	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005	2004
Economic Activity										
Real GDP (% growth)*	—	—	—	—	5.3	1.7	4.1	3.3	3.5	4.2
Industrial Production (% growth)	-1.2	10.0	6.2	4.9	5.3	5.3	1.4	1.6	3.3	4.1
Capacity Utilization (level, %)	81.7	81.9	81.4	81.1	81.1	80.5	79.8	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.6	4.7	4.7	4.8	4.7	5.0	5.0	5.1	5.1	5.5
Housing Starts (thousands)	1957	1863	1972	2132	2123	2060	2101	2064	2073	1950
Real Disposable Personal Income (% growth)*	n.a.	-1.2	0	2.4	2.1	5.1	-1.4	0.2	1.3	3.4
Retail Sales (% growth)	0.8	9.5	8.7	-9.7	13.4	1.9	8.8	9.3	7.2	6.2
Personal Saving Rate (level, %)*	n.a.	-1.6	-1.4	-1.3	-1.3	-0.5	-1.6	-0.2	-0.5	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	4.9	7.4	4.9	1.2	2.2	3.2	5.5	3.7	3.4	2.7
Core CPI-U Inflation (% growth)	3.7	3.7	3.7	1.2	2.4	2.4	1.6	2.0	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	3.2	2.8	3.3	3.7
Output per Hour (% growth)	—	—	—	—	3.7	-0.3	4.2	2.4	2.7	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.72	4.60	4.51	4.43	4.39	3.83	3.36	2.86	3.15	1.37
T-note Rate, 10-years (level, %)	5.11	4.99	4.72	4.57	4.57	4.49	4.21	4.16	4.29	4.27
Federal Funds Rate (level, %)	4.94	4.79	4.59	4.49	4.46	3.98	3.46	2.94	3.22	1.35
Dow Jones Industrial Avg (index level)	11334	11235	11144	10971	10996	10616	10544	10382	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **Existing Home Sales: May 2006** [Release: Tuesday, June 27]
- **Gross Domestic Product: First Quarter 2006 (Final)** [Release: Thursday, June 29]
- **Federal Open Market Committee Statement on Monetary Policy** [Thursday, June 29]
- **Personal Income and Outlays: May 2006** [Release: Friday, June 30]
- **Construction Spending: May 2006** [Release: Monday, July 3]